Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
Federal-State Joint Board on	)	CC Docket No. 96-45
Universal Service	)	

GTE's COMMENTS

GTE Service Corporation and its affiliated
domestic telephone operating companies

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SUMMARY

The Recommended Decision represents the Joint Board's attempt to balance preserving and advancing universal service with promoting the fully competitive marketplace envisioned by Congress in the 1996 Act. Unfortunately, many of the *Recommended Decision*'s proposals fail to achieve the 1996 Act's objectives.

Contrary to the clear standards set forth by the 1996 Act, the *Recommended Decision* proposes that the Commission adopt a universal service funding mechanism that would perpetuate implicit subsidies and fall far should of being sufficient either to preserve or to advance universal service. If the Commission adopted the Joint Board's recommendation to base universal service support on the difference between a nationwide average revenue benchmark and a proxy cost methodology based on the forward-looking costs of a hypothethical, most efficient network, the federal universal service funding mechanism would necessarily fail to comply with the 1996 Act and, like the Commission's *Interconnection Order*, would raise serious constitutional issues. Further, by rejecting the imposition of symmetrical service obligations, the *Recommended Decision* does not promote its own laudable goal of competitive neutrality. It would also be inconsistent with the 1996 Act to use gross telecommunications revenues net of payments to other carriers to fund universal service or reduce the subscriber line charge ("SLC") and continue the carrier common line charge ("CCL"), both of which perpetuate the implicit subsidies that Congress seeks to avoid in the 1996 Act.

Taken as a whole, the *Recommended Decision*'s suggested federal universal service funding mechanism would neither preserve nor advance universal service. At a

minimum, the Commission must link the receipt of high-cost funding to an obligation to serve, adopt a benchmark or benchmarks that appropriately size the universal service fund and account for variations in state pricing, base contributions to universal service support on both interstate and intrastate revenues, and recover common line costs on a cost-causative basis, including deaveraging the SLC to permit economically efficient pricing.

Further, GTE urges the Commission to heed the Joint Board's recommendation to continue to examine auctions as the most efficient, market-driven method of determining universal service support. The Commission should also fund both primary and secondary lines, as well as primary and vacation residences, due to the extreme administrative complexity and likely customer reaction associated with attempting to distinguish between these.

GTE generally supports the Joint Board's recommendations on universal service funding for schools and libraries. GTE does not, however, believe that the 1996 Act permits the Commission to fund inside wiring and internet service provider charges.

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GTE's COMMENTS

GTE Service Corporation ("GTE"), on behalf of its affiliated domestic telephone operating companies, submits the following comments on the *Recommended Decision* of the Federal-State Joint Board in the captioned proceeding.[1]

INTRODUCTION

As an integral part of the "pro-competitive, de-regulatory national policy framework"[2] created by the Telecommunications Act of 1996 ("1996 Act"),[3] Congress confirmed that universal service is one of its "fundamental concerns."[4] To ensure that the newly competitive marketplace would not compromise universal service, Congress instructed the Joint Board and the Commission to devise a mechanism to distribute

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1 Federal-State Joint Board on Universal Service, *Recommended Decision*, CC Docket No. 96-45 ("*D.96-45*"), FCC No. 96J-3 (released Nov. 8, 1996) ("*Recommended Decision*"); *see also* Public Notice, Common Carrier Bureau Seeks Comment On Universal Service *Recommended Decision*, CC Docket 96-45, DA 96 1891 (released November 18, 1996) ("*Recommended Decision Public Notice*").

2 H.R. Conf. Rep. No. 458, 104th Cong., 2d Sess. 113 (1996) ("*Conference Report*").

3 Pub. L. No. 104-104, 110 Stat. 56 (1996). All statutory references in the comments are to 47 U.S.C. unless otherwise indicated.

4 S. Rep. No. 23, 104th Cong., 1st Sess. 4 (1995) ("*Senate Report*").

funding for access to telecommunications services that will both preserve and advance universal service and accomplish certain specific policy goals.

With the *Recommended Decision*, the Joint Board begins to lay the groundwork for the federal universal service funding mechanism that will govern the provision of universal service. The Joint Board makes a commendable effort to grapple with the conflicting goals of ensuring universal service while at the same time creating a framework that is compatible with the fully competitive marketplace that Congress intended.

Unfortunately, instead of adherence to the 1996 Act's carefully defined parameters, the *Recommended Decision* asks the Commission to adopt a universal service funding mechanism that would perpetuate implicit subsidies and undermine universal service as it exists today, and that would be entirely insufficient to accomplish Congress's stated universal service objectives. Moreover, like the Commission's recent *Interconnection Order*,[5] the *Recommended Decision* if adopted would skew competition and raise serious constitutional issues.

Congress recognized that there are very real costs associated with providing universal service and that continued reliance on the current sources of implicit subsidies would be unsustainable in a newly competitive environment. To promote fair competition, Congress directed the Commission and the Joint Board to rely on explicit

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[5] Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, *First Report and Order*, CC Docket No. 96-98, FCC No. 96-325 (released Aug. 8, 1996) ("*Interconnection Order*").

support mechanisms, rather than on the implicit support that exists today.[6] Further, such explicit support must be sufficient to achieve Congress's goals for universal service.[7]

Instead of heeding these simple directives, however, the Joint Board at every juncture recommends proposals that necessarily will underestimate the costs of universal service and overstate the revenues that carriers will be able to recover to offset these costs. In short, the *Recommended Decision* asks the Commission to establish a universal service funding mechanism that both sustains implicit subsidies and is insufficient.

The 1996 Act, however, did not contemplate the use of the universal service funding mechanism to provide unfair advantages to certain competitors or to make arbitrary and unsubstantiated judgments regarding the validity of the costs actually incurred by incumbent local exchange carriers ("ILECs").[8] In devising a "pro-competitive, de-regulatory" initiative, Congress expressed its abiding confidence in competition, rather than regulation, as the best means to promote efficiency. Nowhere does the statute even imply that this should be achieved to the detriment of current universal service. In fact, the statute explicitly and repeatedly directs the Commission and the Joint Board to "advance" as well as "preserve" universal service.[9] The

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6 *Conference Report* at 131.

7 Section 254(e).

8 For example, the Joint Board proposed the use of proxy costs to avoid offsetting "the costs of inefficient provision of service." *Recommended Decision* at ¶ 270.

9 *See, e.g.*, Sections 254(b), 254(b)(4), and 254(b)(5); *Conference Report* at 131.

Recommended Decision appears to assume, incorrectly, that there is a tradeoff between ensuring sufficient support for universal service and providing a sound environment for competition. Just the opposite is true: since universal service will establish the price level that carriers will see as local service providers, setting support at an insufficient level is the same as holding the price below the level the market would set. As in any other market, holding the price artificially low will discourage entry by prospective suppliers.

The *Recommended Decision* appears at almost every juncture to avoid confronting the most difficult problems posed by its Congressional mandate. By squeezing universal service support through the use of an incongruous benchmark that overstates available revenue to support universal service and a forward-looking cost methodology that threatens to understate dramatically the costs of providing it, the *Recommended Decision* appears to seek to put off until another day how carriers will recover the costs of providing universal service. The *Recommended Decision* also avoids coming to grips with where the money will come from -- how carriers who contribute to the fund will recover these amounts from their customers. It avoids grappling with common line recovery, by failing to recognize that common line costs have anything to do with universal service. The *Recommended Decision* also makes no provision for the use of new support funding to replace existing implicit support.

Perhaps most importantly, the *Recommended Decision* fails to put in place an effective obligation to serve as a condition for receiving high cost support. It is incongruous that a program whose purpose is to assure the availability of basic service at affordable rates does not have anything to say about the rates carriers must charge,

or who they must serve, in return for support payments. Because of this failure to link support to the purpose for which it is being distributed, some carriers will be able to receive support for serving selectively, while ILECs will continue to have asymmetric service obligations. Structured in this way, the Federal plan will not be sufficient, as required by the 1996 Act, since selective entry will undermine its effectiveness. It will also fail to achieve the Joint Board's laudable goal of competitive neutrality, since ILECs and other carriers will receive the same support, but will have different obligations.

In light of the fundamental infirmities with the *Recommended Decision*, the Commission should exercise its discretion to correct these errors. Because the *Recommended Decision* is not binding on the Commission,[10] the FCC should correct the *Recommended Decision's* flaws detailed below and adopt a federal universal service funding mechanism that will preserve and advance universal service as required by the 1996 Act.

Moreover, as the Commission prepares to write the second chapter of its "trilogy" on regulatory reform, it has the daunting task of creating an integrated set of policies that will together accomplish Congress's pro-competitive objectives. As noted *supra*, in the universal service proceeding, the Commission, together with the states, will be determining the price competing carriers will see as prospective local service

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[10] In every reference in the 1996 Act, Congress couched the Joint Board's activities in terms of "recommendations" to the Commission and nowhere indicated that they would be binding. *See, e.g.*, Sections 254(a)(1)-(2); *Conference Report* at 131. The *Conference Report* makes clear that the House receded to the Senate on universal service, and the *Senate Report* specifically states that the Joint Board's recommendations are advisory in nature and that the FCC is not required to adopt its recommendations. *Senate Report* at 25.

providers.[11] In order to send correct price signals to the market, it is important that this be set as close to the market price for basic local service as possible. This price-setting activity, in turn, is related to the Commission's decisions in the rest of the trilogy. The local service price must bear a reasonable relationship to the sum of the unbundled element rates. Access prices will also have to be consistent with unbundled elements. And, completing this circle, a sufficient level of universal service support will provide the funds necessary to remove implicit support from access charges, thus bringing them closer to market levels.

The Commission in the *Interconnection Order* determined that the costs should be borne by the cost causer. Although GTE disagrees that the Commission had the authority to adopt the national cost scheme it selected in the *Interconnection Order,* or that the costs selected were the correct ones, the Commission must use the same cost-causation principle in both the universal service and access reform proceedings. And, because Section 254 mandates explicit and sufficient universal service support, the Commission must ensure that the subsidies removed from access charges do not inadvertently fall between the cracks of the various proceedings. Achieving compatibility between removal of subsidies through rate rebalancing while assuring universal service through explicit support as the statute requires will be a delicate balancing act. To this end, the Commission must coordinate its interconnection, universal service, and access reform proceedings to ensure that these polices send the

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[11] In the local service transaction, the customer will see the "affordable" price, under the ceiling set by the state commission. The carrier will see the sum of that price and the support payment. This is the price the carrier will respond to in making entry and investment decisions.

correct economic signals to both end users and all providers of telecommunications services, and avoid creating unintended arbitrage opportunities.

DISCUSSION

I. THE 1996 ACT SETS FORTH VERY CLEAR STANDARDS .

The 1996 Act establishes a definitive set of standards and principles on which the Joint Board and Commission must rely in developing the federal universal service funding mechanism. Under the 1996 Act, the Commission must ensure that specific, predictable, and sufficient mechanisms support universal service,[12] and that universal service support is explicit and sufficient to achieve Congress's universal service objectives.[13] The 1996 Act also specifies that quality services should be available at just, reasonable, and affordable rates,[14] and that all providers of telecommunications services should make an equitable and nondiscriminatory contribution to the preservation and advancement of universal service.[15] In addition, the Joint Board appropriately recommends that the Commission adopt competitive neutrality as an additional principle on which the FCC should base its universal service policies.[16]

Although Congress did not expressly include competitive neutrality in the 1996 Act as one of the specific principles on which the Joint Board and Commission should

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[12] Section 254(b)(5).

[13] *Id.* at Section 254(e).

[14] *Id.* at Section 254(b)(1).

[15] *Id.* at Section 254(b)(4).

[16] *Recommended Decision* at p 23.

rely in developing the federal universal service funding mechanism,[17] competitive neutrality is clearly embodied in the "pro-competitive" framework of the 1996 Act.

A. The 1996 Act Directs The Commission To Ensure That Universal Service Support Is Sufficient

The 1996 Act permits subsidized universal services to bear a "reasonable share" of the joint and common costs of the facilities used to provide those services but prohibits carriers from using services that are not competitive to subsidize services that are subject to competition.[18] These provisions do not furnish a detailed indication of how the Joint Board and Commission should interpret the term "sufficient," but the legislative history of the 1996 Act suggests that universal service support "must accurately reflect the amount reasonably necessary to preserve and advance universal service."[19] This is consistent with the conventional use of the term sufficient, which is "as much as needed, enough, or adequate."[20]

The 1996 Act places the responsibility to ensure that the federal universal service funding mechanism is sufficient squarely on the FCC. This is shown by subsection 254(d), which requires equitable and nondiscriminatory contributions to "the specific, predictable and sufficient mechanisms **established by the Commission** to preserve and advance universal service." *Emphasis added.*

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[17] Congress did indicate that nothing should prevent states from imposing on a competitively neutral basis state mechanisms to preserve and advance universal service. Section 253(b).

[18] Section 254(k).

[19] *Senate Report* at 29.

[20] *American Heritage Dictionary*, Second College Edition.

Plainly the statute expects the states to play a constructive role in assuring that universal service funding is sufficient, as indicated by the phrasing of subsection 254(b)(5) ("[t]here should be specific, predictable and sufficient Federal and State mechanisms to preserve and advance universal service.") Section 254, however, provides the states with discretion to go beyond the federal and state programs devised under section 254(b)(5). Notably, subsection 254(f) states:

> A State may adopt regulations not inconsistent with the Commission's rules to preserve and advance universal service.... A State may adopt regulations to provide for additional definitions and standards to preserve and advance universal service within that State only to the extent that such regulations adopt additional, specific, predictable, and sufficient mechanisms to support such definitions or standards that do not rely on or burden Federal universal service support mechanisms.

Under this section, Congress empowered the states to take unilateral action under certain conditions. When Congress imposed a mandatory requirement on the states in the 1996 Act, it did so explicitly.[21] Thus, because section 254 places no affirmative responsibility on the states to ensure that universal service funding is sufficient, only the FCC could possibly take overall and plenary responsibility for carrying out the mandate of that section.

Because the 1996 Act requires the FCC to take overall responsibility for adopting and implementing a sufficient federal plan, the federal universal service funding mechanism should be comprised of actions taken by the FCC as well as actions taken by the states voluntarily to come within federally defined conditions. Thus, federal

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[21] When Congress intended to mandate action on the part of the states, it used the term "shall." *Compare* Section 214(e)(2) ("[a] State commission shall upon its own motion or upon request designate a common carrier") *with* Section 254(b)(5).

support may be made conditional on each participating state (1) allowing for more realistic pricing for service to high-cost areas within the bounds of "affordability," as discussed *infra.;* and *(2)* establishing a workable state-level universal service plan that will take on certain designated responsibilities.[22]

B. Congress Intended Universal Service Support To Be Explicit.

As to the "explicit" requirement, Congress indicated that "any support mechanisms continued or created under new Section 254 should be explicit, rather than implicit as many support mechanisms are today."[23] The *Conference Report* states that by "explicit," the Conference Committee means that all universal service support should be "clearly identified."[24] The *Senate Report* further explains that universal service support should be "transparent," unlike the "nontransparent internal cost-shifting" that occurs today,[25] and uses access charges as an illustration of an existing implicit subsidy mechanism.[26]

The legislative history of the 1996 Act illustrates that Congress's intent is consistent with the plain meaning of both the term "explicit," *i.e.*, "expressed with clarity and precision and clearly defined or formulated," and the term "implicit," *i.e.*, "not

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[22] This would not prevent a state from including in the state-level plan funding for more extensive services or for additional rate protection for customers in high-cost/low-income areas -- provided there is still that harmony with the federal plan required by subsection 254(f).

[23] *Conference Report* at 131 (emphasis added).

[24] *Id.*

[25] *Senate Report* at 25. "Transparent" is conventionally defined as "easily understood or detected; obvious." *American Heritage Dictionary*, Second College Edition.

directly expressed or readily apparent."[27] Clearly, then, the universal service funding mechanism should not require carriers to shift costs to recover shortfalls in universal service support.

C. Competitive Neutrality Is An Essential Component Of The Federal Universal Service Funding Mechanism.

GTE commends the Joint Board on its recommendation that competitive neutrality should be a fundamental tenet of the federal universal service funding mechanism that the Commission adopts.[28] As the Joint Board recognizes, competitive neutrality is integral to various provisions of both Section 254 and 214 and is imperative to promote the "pro-competitive, de-regulatory national policy framework" that Congress envisioned in the 1996 Act.[29] Moreover, as demonstrated below, the Commission must impose symmetrical service obligations on all eligible telecommunications carriers. Otherwise, it would be impossible to ensure that universal service support is explicit and sufficient as required by the 1996 Act.

The Commission has specifically invited parties to comment on how it should define competitive neutrality.[30] In general, competitive neutrality should mean that the

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[26] *Senate Report* at 30.

[27] *American Heritage Dictionary*, Second College Edition.

[28] The legislative history is largely silent on how competitive neutrality should be defined. The *Senate Report*, however, describes the conversion from implicit to explicit support mechanisms as a means to accomplish "greater certainty and competitive neutrality among competing telecommunications providers." *Senate Report* at 25.

[29] *Recommended Decision* at ¶ 23.

[30] *See Recommended Decision Public Notice.*

plan causes the minimum possible distortion to the competitive market outcome. In particular, GTE urges the Commission to define competitive neutrality in terms of the effect that Commission regulations will have on the decisions that customers make in choosing carriers and services, and the decisions carriers make in choosing to enter markets, to invest, to choose technology, or to market to particular customers. Thus, the Commission should define competitive neutrality to require a federal universal service funding mechanism that does not unfairly bias any customer in favor of any carrier or place asymmetrical burdens on any carrier by virtue of an effect of the Commission's universal service regulations. In addition, competitive neutrality should mean that burdens are not placed upon certain market participants that are not borne by others. Finally, it should be noted that price distortions are inherently not neutral. A distortion in the price of local service, for example, would inhibit customer demand for the service, and deter carriers from entering markets to provide it.

II. THE *RECOMMENDED DECISION* DOES NOT ADHERE TO THE STANDARDS SET FORTH IN THE 1996 ACT, NOR DOES IT COMPLY WITH CONSTITUTIONAL REQUIREMENTS.

In tandem, the statutory requirement that universal service support be explicit and sufficient and the Joint Board's recommended competitive neutrality principle compel the Commission to establish a workable and effective universal service funding mechanism. Failing these basic requirements, the federal universal service funding mechanism cannot comply with the 1996 Act or constitutional standards. As demonstrated below, the *Recommended Decision* contravenes the 1996 Act because it: (1) imposes unfair and asymmetrical regulatory obligations on ILECs; (2) employs a forward-looking cost methodology that is likely to deny ILECs a fair opportunity to

recover the costs they have prudently invested; (3) perpetuates unlawful implicit support through the use of a nationwide average revenue benchmark; and (4) proposes a method to collect universal service funds that is patently discriminatory, and that does not make any provision for the recovery of carrier contributions from customers.

A. The *Recommended Decision* Fails To Propose A Plan That Would Be Competitively Neutral And Sufficient.

To comport with the intent and explicit terms of Section 254, the Commission must adopt a plan that will be "sufficient" to accomplish the objectives specified by Congress in subsection 254(b) as supplemented by the additional objective of competitive neutrality adopted by the *Recommended Decision*. Absent symmetrical service obligations, the plan of the *Recommended Decision* if finally adopted would fail to be competitively neutral or sufficient, and would in effect treat universal service as an entitlement, which would be directly contrary to the 1996 Act.

1. The *Recommended Decision* Fails To Propose A Plan That Would Be Competitively Neutral.

The *Recommended Decision* proposes (at ¶ 155) that any carrier meeting the minimal requirements to qualify as an Eligible Telecommunications Carrier ("*Eltel*") under section 214(e)(1) would receive universal service support.[31] This recommendation would not be competitively neutral and would necessarily fail to provide a workable and effective means of preserving and advancing universal service. Indeed, if the Commission adopts this recommendation, it would completely fail to

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[31] For a detailed discussion of the statutory basis on which the FCC has the authority to adopt symmetrical service obligations, see letter of Whitney Hatch, GTE Service Corporation, to William F. Caton, CC Docket No. 96-45 (September 18, 1996).

satisfy the dictates of section 254.

An essential problem addressed by Congress in the 1996 Act is the difficulty of creating and maintaining a competitive environment when one of the competitors operates under severe constraints while other competitors are scarcely restrained at all. The 1996 Act's answer is to set up a new mechanism whereby those carriers that bear extraordinary regulatory burdens -- and that are prevented by government from charging customers a price that reflects the full cost of such extraordinary burdens -- will receive support for such governmental intervention in the marketplace from a program to which all carriers must contribute *pro rata*. The *Recommended Decision* (at ¶ 155) proposes that carriers receive support for providing a package of specific telecommunications functionalities (defined at ¶ 46) in high cost areas by meeting only the simple first-level eligibility criteria contained in Section 214(e)(1). This is clearly not competitively neutral, because one carrier must perform a more burdensome and costly function than other carriers, for the same compensation.

2. An Obligation to Serve Is Essential, Not Only for Competitive Neutrality, But Also For Sufficiency.

The problem with the failure to specify an obligation to serve, however, is more fundamental, and would be a fatal flaw in the Recommended Decision, even if there were no ILECs with asymmetric obligations today. This is true because customers in each serving area will be heterogeneous, and because the Commission cannot have perfect knowledge about each of them.

Consider the serving area illustrated in Attachment 1. Each customer in this area has a unique combination of attributes which would make that customer more or less attractive to serve. These might include the cost to serve the customer, the

likelihood and volume of any complementarities with other services which would generate "follow-on" revenues, credit history, and perhaps others. Imagine, for each customer in the area, the support payment that would be just sufficient to induce a carrier to serve that customer. If these customer-specific support needs were simply arranged by size, in declining order, it would produce the ordering shown in Attachment 1. Customer A is the least desirable customer in the area, requiring a support payment of $50. Most desirable are customers like C and D; carriers would be willing to serve them without any support payment.

If the Commission could offer just the amount shown on this curve for each customer, there would be no need for an obligation to serve, since each customer would have exactly the right amount of support to induce voluntary supply from a carrier. A carrier would receive $50 for serving customer A, $10 for customer B, and so on. Unfortunately, such perfect knowledge does not exist, and in any event such a plan would be too complex to administer. Therefore, the plan must provide a single, average amount for each customer served.

If this average support payment is set at $10, then, in the absence of an obligation to serve, customer B would be offered service, but customer A would not. In fact, none of the customers above point B on the curve would be served voluntarily for a support of $10. The only way to ensure that all of the customers in the area would be served voluntarily would be to set the average support at $50, the amount needed for customer A. This would obviously be extremely expensive, since the plan would pay too much for every customer except A. For example, it would pay $40 too much for customer B.

It would be easy for carriers to select the customers they wish to serve from this curve, while still satisfying the minimal requirements for Eltels in Section 214(e)(1). For example, suppose a carrier were to offer a package which met the basic service definition, but which also included $50 worth of toll calling, for a package price of $65. Customer C, who has $100 of toll demand per month, would find this package attractive, and would buy it; customers A and B, who have low toll demand, would not. Or the package could include a bundle of vertical features which customer D, who has high demand for such features, would choose. Nothing in Section 214(e)(1) would prevent an Eltel from packaging in this way, which would allow carriers to serve selectively within the area, peeling off those customer segments they wish to target.[32] In this case, the Eltel could serve only customers A and B, whom the carrier would have been willing to serve anyway, with no support, and be compensated by the universal service plan for doing so.

It is clear, then, that the plan cannot be sufficient, in the absence of an effective obligation to serve, until the support payment reaches a very high level ($50 in this example). This has nothing to do with the traditional obligation of the ILEC, and would be the case even if there were no ILEC.

Now consider the case where there is an ILEC with a unique obligation to serve.

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[32] An alternative strategy would be for the carrier to price discriminate among customers. The carrier could announce a high price for basic service (say $200), and advertise this price to satisfy its 214(e)(1) obligation. The carrier could then notify its "gold" customers of a more attractive package, priced at $15. Note, however, that the strategy that relies only on packaging does not require any price discrimination to be successful; each package can be offered to all customers at the same price.

If symmetric obligations are not imposed on new entrants, they can choose to serve only customers like C and D, using the targeted packages just described. In this case, however, customers A and B are not left unserved, because the ILEC must serve them. But the average support level is not sufficient for the ILEC, because the ILEC customers have support needs which are above the average. The entrants, in contrast, are receiving far more support than they need -- in fact, they are being paid to do what they would have done voluntarily. Clearly, the support is not well targeted in this case. The plan is not competitively neutral, because it pays the same amount for the ILEC customers, who have higher funding needs, as for the CLEC customers, who need no funding at all. Further, because the support paid to the ILEC is less than it needs, the fund will always be insufficient to ensure the provision of universal service. Again, in the absence of an obligation to serve, this will be true regardless of the support level the Commission sets (short of $50 in this example).

Note also that the plan cannot rely on any average amount of "follow-on" revenues to support basic service. Even if that were desirable, these revenues tend to be concentrated among a few customers, who are precisely the ones new firms will serve selectively. The bulk of these revenues will thus be siphoned off, leaving the ILEC with customers whose revenues are below average.[33]

3. An Obligation to Serve Is the Specification of the Plan's Objectives.

Because the Commission cannot offer the exact amount for each customer that

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[33] There are other reasons, discussed *infra*, why counting "follow-on" revenues in the determination of universal service funding is unreasonable.